

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 2  
(September 2, 1997)

The United States Postal Service hereby provides its response to Presiding Officer's Information Request No. 2, issued on August 19, 1997. The questions are stated verbatim and are followed by the answers, with declarations from the witnesses.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux, Jr.  
Chief Counsel, Ratemaking

  
\_\_\_\_\_  
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September 2, 1997

Response of United States Postal Service Witness Degen  
to Presiding Officer's Information Request No. 2

Question 1. Before filing the Docket No. R97-1 Request with the Commission, did the Postal Service attempt to analyze the reasons why the attributable costs for library rate mail have risen so much faster than the costs for special rate mail? If so, please provide that analysis. If not, please analyze that question now, and provide the results of that analysis.

Question 1 Response:

It is my understanding that the Postal Service has monitored the unit costs of *Library rate mail since R94-1, but since the BY 1996 costs have only recently been released, the Postal Service has not conducted any analysis of the increase in Library rate costs in preparation for R97-1. In response to this request we have examined the costs for Library rate over the period 1990-1996. We observe that Library rate unit costs rose from \$1.24 per piece in 1990 to \$1.89 in 1995, however, the unit cost declines to \$1.73 in 1996, which is the same as the 1993 value. Over the 1990-1996 period Special rate unit costs declined from \$1.53 to \$1.31. Attachment 1 shows volume statistics and total unit costs for Library and Special rate by year along with the cost segment detail. Library rate mail processing costs (Segment 3) are nearly half of the total each year. These costs rise sharply in 1995 but return to the 1993 level by 1996. Transportation is (Segment 14) the next largest segment of Library rate costs. Transportation costs decline in 1996 to the level they had been in 1990. The consistency of nominal transportation costs in 1990 and 1996 implies a decline in real transportation costs*

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which is consistent with the observed decline in weight and cube, but costs do not decline in proportion to weight and cube. For Special rate nearly half the decline in total costs per piece (-.22) is caused by a decline in mail processing cost (-.09). Most of the remainder of the decline is due to transportation (-.08). Again, the decline is consistent with the declines in weight and cube, but not in the same proportion.

We have looked at the tallies underlying Library rate. In 1995 there are 152 tallies for Library rate. This may seem like a lot relative to other small categories like Classroom, which had 31, however, tallies should occur in proportion to volume and unit cost since tallies correspond to units in time and higher cost categories embody more time per piece. If we look at tallies per dollar of unit cost, Library has 80.4 and Classroom has 163.2. These tallies per dollar of unit cost are proportional to the relative volumes in these two classes. Our conclusion is that Library rate costs, like Classroom, suffer from some instability due to the small volume and the nature of the IOCS sampling procedure.

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Attachment 1

Standard (B) Library Rate Units Costs 1990-1996 (nominal dollars)

Cost Segment	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Seg. 1	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Seg. 2	0.05	0.05	0.07	0.07	0.07	0.06	0.08
Seg. 3	0.42	0.41	0.55	0.59	0.83	0.77	0.69
Seg. 4	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Seg. 6&7	0.05	0.07	0.06	0.08	0.09	0.09	0.09
Seg. 8	0.03	0.03	0.02	0.02	0.03	0.02	0.02
Seg. 10	0.03	0.03	0.03	0.03	0.03	0.04	0.04
Seg. 11	0.06	0.06	0.07	0.09	0.08	0.09	0.10
Seg. 12	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Seg. 13	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Seg. 14	0.38	0.48	0.39	0.44	0.41	0.45	0.39
Seg. 15	0.05	0.05	0.05	0.07	0.05	0.06	0.05
Seg. 16	0.02	0.02	0.03	0.04	0.04	0.06	0.07
Seg. 18	0.06	0.09	0.12	0.14	0.13	0.08	0.08
Seg. 20	0.04	0.04	0.04	0.05	0.05	0.13	0.11
Total Unit Cost	1.24	1.33	1.43	1.73	1.61	1.89	1.73

Standard (B) Library Rate CRA Volume Statistics 1990-1996

Cost Segment	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Pieces (thousands)	40,567	40,228	42,100	38,690	35,776	29,500	30,133
Weight per piece (ounces)	56.1	46.8	41.3	43.8	45.4	38.9	27.1
Weight per cubic foot (pounds)	14.5	13.4	13.5	13.5	13.5	13.5	13.5
Weight in pounds (thousands)	142,182	117,641	108,583	105,862	101,478	71,833	50,971
Cubic feet (thousands)	9,773	8,771	8,065	7,857	7,530	5,315	3,782

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Attachment 1(Continued)

Standard (B) Special Rate Unit Costs 1990-1996 (nominal dollars)

Cost Segment	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Seg. 1	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Seg. 2	0.07	0.07	0.08	0.08	0.08	0.08	0.08
Seg. 3	0.59	0.59	0.61	0.73	0.53	0.50	0.50
Seg. 4	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Seg. 6&7	0.09	0.09	0.09	0.11	0.11	0.08	0.10
Seg. 8	0.03	0.02	0.03	0.02	0.02	0.02	0.02
Seg. 10	0.03	0.03	0.03	0.02	0.02	0.02	0.02
Seg. 11	0.08	0.08	0.08	0.08	0.07	0.08	0.07
Seg. 12	0.01	0.01	0.01	0.01	0.01	0.01	0.01
Seg. 13	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Seg. 14	0.35	0.31	0.30	0.28	0.27	0.23	0.27
Seg. 15	0.07	0.06	0.06	0.06	0.04	0.04	0.04
Seg. 16	0.03	0.03	0.03	0.04	0.03	0.05	0.05
Seg. 18	0.12	0.12	0.13	0.14	0.11	0.05	0.06
Seg. 20	0.06	0.06	0.05	0.05	0.04	0.09	0.08
Total Unit Cost	1.53	1.48	1.50	1.63	1.32	1.21	1.31

Standard (B) Special Rate CRA Volume Statistics 1990-1996

Cost Segment	FY 1990	FY 1991	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
Pieces (thousands)	149,433	153,138	165,152	184,763	190,867	217,781	189,793
Weight per piece (ounces)	38.4	32.2	32.7	29.5	28.2	25.4	26.9
Weight per cubic foot (pounds)	10.6	10.3	10.7	10.6	10.6	10.6	10.6
Weight in pounds (thousands)	340,248	308,611	337,175	304,288	335,902	348,257	319,402
Cubic feet (thousands)	32,205	30,064	31,538	28,742	31,728	32,706	30,169

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Question 2. In Docket R94-1, the Commission concluded that as the processing of library rate and special rate pieces should be similar, data showing that the attributable costs for these two subclasses were similar was not surprising. Describe significant differences in the processing of these two subclasses and relate those differences to the variations in reported costs.

Question 2 Response:

It is my understanding that the operating plan does not segregate Library rate mail from Special rate mail, however, to the extent that Special is bulk-entered and containerized by presort level, we would expect Special rate mail to exhibit lower unit costs. Special rate mail may also enjoy higher productivities in sortation operations because the identical or very similar pieces allow keyers to more easily orient the pieces to read the address or barcode. No studies have been undertaken to quantify the expected difference in unit costs, but the average observed difference is not unreasonable.

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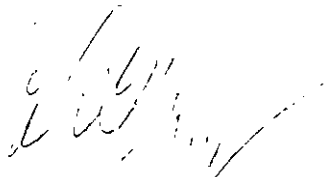
Question 3. Discuss the extent to which the relatively small volume of library rate mail may reduce the reliability of the unit cost information developed from Postal Service data collection systems.

Response to Question 3:

Please see my response to question 1 and my testimony in MC96-2 (USPS-CT-2).

**DECLARATION**

I, Carl G. Degen, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
Carl G. Degen

Date: 9-2-97



**Response of United States Postal Service Witness Adra  
to Presiding Officer's Information Request No. 2**

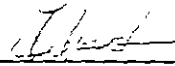
4. In Docket No. MC96-2, the Postal Service suggested a temporary means of ameliorating the impact of variations in reported unit costs for a small volume subclass (Classroom mail) in order to make cost estimates more reliable over time. Was any consideration given to exploring the justification for a similar proposal for library rate mail? If so, please describe the factors considered.

**RESPONSE:**

4. In preparation for R97-1, I did give consideration to the impact that the reported costs for Library mail had on the proposed rates, as they changed the traditional relationship between Library and Special Standard rates. However, I felt that the impact could be mitigated for most mailers, since they will be able to migrate to Special Standard and pay the relatively lower rates. I did not adopt a "Classroom-type" solution for two reasons. First, the markup for Library is required to be half of the markup for Special Standard. This is in contrast to the situation in Classroom where I understand that one preferred rate schedule could be adopted for both Classroom and Non-profit. Second, Classroom mailers were faced with much larger rate increases than most Library mail customers would be, since they will be able to use the Special Standard rates and thereby mitigate the effective increase from current Library rates.

**DECLARATION**


I, Mohammad Adra, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
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Dated: 9/2/97

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

  
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Eric P. Koetting

475 L'Enfant Plaza West, S.W.  
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September 2, 1997